

IN THE UNITED STATES DISTRICT COURT
FOR THE EASTERN DISTRICT OF WISCONSIN
GREEN BAY DIVISION

_____)	
UNITED STATES OF AMERICA and)	
THE STATE OF WISCONSIN,)	
)	
Plaintiffs,)	Civil Action No. 10-C-910
)	
v.)	Hon. William C. Griesbach
)	
NCR CORPORATION, <i>et al.</i> ,)	
)	
Defendants.)	
_____)	

**PLAINTIFFS’ REPLY IN SUPPORT OF THEIR MOTION FOR
A DECLARATION OF INAPPLICABILITY OF THE AUTOMATIC STAY**

The United States and the State of Wisconsin are seeking reimbursement of past and future response costs and natural resources damages from Defendant NewPage Wisconsin System, Inc. (“NewPage”) for polychlorinated biphenyl contamination (“PCB”) at the Lower Fox River and Green Bay Superfund Site. Such claims are not subject to the Bankruptcy Code’s automatic stay provision because the pursuit of those claims is excepted from the stay as an exercise of the Plaintiffs’ police and regulatory powers. The statutory police and regulatory power exception allows a CERCLA enforcement action like this to proceed through the entry of judgment so long as the governmental claimant takes no action to enforce a monetary judgment outside of the bankruptcy process.

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The Seventh Circuit has recognized that the government's enforcement of a police and regulatory power is exempt from the Bankruptcy Code's automatic stay under 11 U.S.C. § 362(b)(4).¹ *Nat'l Labor Relations Bd. v. P*I*E Nationwide, Inc.*, 923 F.2d 506, 512 (7th Cir. 1991). The Court of Appeals has explained that the exception applies to the enforcement of laws affecting health, welfare, morals and safety "but not to 'regulatory laws that directly conflict with the control of the *res* or property by the bankruptcy court.'" *In re Cash Currency Exchange, Inc.*, 762 F.2d 542, 555 (7th Cir. 1985), *cert. denied*, 474 U.S. 904 (1985) (quoting *State of Missouri v. United States Bankruptcy Court*, 647 F.2d 768, 776 (8th Cir. 1981)). Relying on two cases from other jurisdictions, NewPage argues that the Plaintiffs must pass the "pecuniary interest test" or the "public policy test" to invoke the police and regulatory power exception. The Seventh Circuit has never adopted those tests, but the Plaintiffs' claims against NewPage would not be stayed if either of those tests were used here, as shown below.

1. The Pecuniary Purpose Test and the Public Interest Test

Under the "pecuniary interest test," courts have generally found that "if the focus of the police power is directed at the debtor's financial obligations rather than the [government]'s health and safety concerns, the automatic stay is inapplicable." *In re Emerald Casino, Inc.*, No. 03-cv-05457 2003 WL 23147946, at *8 (N.D. Ill. Dec. 24, 2003).

In actually applying those criteria, the cases make clear that Bankruptcy Code Section 362 should not be construed to bar a governmental proceeding which seeks to vindicate the public interest even if substantial pecuniary interests also are at issue:

¹ Subsection 362(b)(4) was amended in 1998 to combine former subsections 362(b)(4) and 362(b)(5), and to further broaden the scope of the "police power" exception. *See* 105 Cong. Rec. H10950-01 (Nov. 13, 1997); *In re Bankruptcy Appeal of Allegheny Health, Education and Research Foundation*, 252 B.R. 309 (W.D. Pa. 1999). Given the lack of significant change to the language of the "police power" exception, prior case law still applies in interpreting the scope of the exception today. *See In re Mohawk Greenfield Motel Corp.*, 239 B.R. 1 (Bankr. D. Mass. 1999).

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[M]ost government actions which fall under [the police and regulatory exception] have some pecuniary component This does not abrogate their police power function. Only if the action is pursued ‘solely to advance a pecuniary interest of the governmental unit’ will the automatic stay bar it.

Universal Life Church, Inc. v. United States (In re Universal Life Church, Inc.), 128 F.3d 1294, 1299 (9th Cir. 1997) (quoting *In re Thomassen*, 15 B.R. 907, 909 (9th Cir. BAP 1981)).² *Accord In re Gandy*, 327 B.R. 796, 803 (Bankr. S.D. Tex. 2005) (“For example, a governmental unit’s action on a debt arising from a normal commercial transaction to purchase goods or services, or an action to collect taxes are generally stayed by the automatic stay. However, if the money damages are ancillary to the governmental unit’s enforcement of its police and regulatory power, then the action itself is not stayed, though collection of the judgment is stayed.”). In other words, the government’s “actions do not fall outside section 362(b)(4) simply because the State might obtain a pecuniary benefit from the proceeding.” *Emerald Casinoc*, 2003 WL 23147946, at *8 (citing *Alpern v. Lieb*, 11 F.3d 689, 690 (7th Cir. 1993)).

Under the closely related “public policy test,” courts examine whether the government is seeking to adjudicate private rights or to effectuate public policy.” *In re Phillip*, 368 B.R. 733, 739 (Bankr. N.D. Ind. 2007). *Accord Gandy*, 327 B.R. at 803. “The inquiry is objective – court must examine the purpose sought to be achieved by the law generally, rather than the government’s intent in enforcing the particular law in that case.” *Phillip*, 368 B.R. at 739.^{1/}

² NewPage cites the *Thomassen* case and one other decision (discussed below) as the sole support for its arguments. In *Thomassen*, the Ninth Circuit held that a medical license revocation proceeding qualified under the police and regulatory power exception to the automatic stay. *Thomassen*, 15 B.R. at ____.

^{1/} Very few cases have actually found that governmental action was something other than an exercise of police or regulatory authority under the “pecuniary interest test” or the “public interest test.” See, e.g., *Corporacion de Servicios Medicos Hospitalarios de Fajardo v. Mora (In re Corporacion de Servicios Medicos Hospitalarios de Fajardo)*, 805 F.2d 440, 446 (1st Cir. 1986) (holding that a public contract termination action was not an exercise of police and regulatory authority, because it “did not directly involve the enforcement of generally applicable

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NewPage's argument is not complicated: the company contends that Plaintiffs "are seeking only monetary damages from NewPage" so "Plaintiffs are pursuing their pecuniary interests and not the public health and safety." Dkt. 240-1 at 1-2. But the Seventh Circuit has rejected such simplistic reasoning and has made clear that "[t]he fact that the sanction is entirely pecuniary does not take it out of section 362(b)(4)." *Alpern*, 11 F.3d at 690. In one leading case, the Court of Appeals allowed a governmental unit to seek a monetary judgment as a police power exercise based on an assessment of the purpose of the statute. See *P*I*E Nationwide*, 923 F.3d at 511-12 (suit to establish the amount of back pay as a result of an unfair labor practices was within the police and regulatory exception to the automatic stay). Although required by the tests it advocates, NewPage skips over such inquiries, such as the need to "examine the purpose sought to be achieved by the law generally," *Phillip*, 368 B.R. at 739, and to assess whether "the money damages are ancillary to the governmental unit's enforcement of its police and regulatory power," *Gandy*, 327 B.R. at 803. As shown below, the claims against NewPage plainly implicate the Plaintiffs' exercise of their police and regulatory power under CERCLA.

2. Governmental CERCLA Claims Involve the Exercise of Police and Regulatory Power.

As the Supreme Court has recognized, CERCLA "was designed to promote the 'timely cleanup of hazardous waste sites' and to ensure that the costs of such cleanup efforts were borne by those responsible for the contamination." *Burlington Northern and Santa Fe Ry. Co. v. United States*, 556 U.S. 599, -- (2009) (citations omitted). Consistent with those statutory purposes, CERCLA § 107 enables governmental plaintiffs to recover unreimbursed past response

regulatory laws"); *Missouri v. United States Bankruptcy Court of the Eastern District of Arkansas*, 647 F.2d 768, 771 n.6, 775-78 (8th Cir. 1981) (holding that enforcement of state receivership laws governing "operation or liquidation of . . . public grain houses to protect the best interests of those individuals storing grain in said facilities" conflicted with the federal bankruptcy trustee's management of the property of the bankruptcy estate, and was not an exercise of police and regulatory power).

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costs and natural resource damages. 42 U.S.C. §§ 9607(a)(4)(A), 9607(a)(4)(C). If the government prevails, CERCLA § 113 also mandates entry of a declaratory judgment covering any future response cost or damages “that will be binding on any subsequent action or actions to recover further response costs or damages.” *Id.* at 9613(g)(2). Collections in CERCLA cost recovery cases replenish the Hazardous Substance Superfund, a Congressionally established revolving trust fund that its used to finance EPA response activities under the law. *See* 26 U.S.C. § 9507. Natural resource damages recoveries under CERCLA must be used “only to restore, replace, or acquire the equivalent of [the injured] natural resources” at the contaminated site. 42 U.S.C. § 9607(f)(1).

Numerous courts have held that efforts to fix the amount of monetary judgments in governmental actions under CERCLA and comparable environmental statutes fall squarely within the police and regulatory exception to the automatic stay. Among other things, the case law recognizes that CERCLA enforcement actions promote accountability and deterrence objectives that are central to the purpose of the law.³

In *United States v. Nicolet, Inc.*, the Third Circuit held that an action for environmental response costs under CERCLA is exempt from the automatic stay. 857 F.2d 202 (3d Cir. 1988). The court reasoned that governmental cost recovery actions under CERCLA advance important police and regulatory purposes:

The same statute that directs the government to abate hazardous sites also provides for the recovery of response costs from the responsible parties

³ *See generally* 125 Cong.Rec. 17989 (1979) (remarks of Sen. Culver), *reprinted in*, 1 Senate Committee on Environment and Public Works, A Legislative History of CERCLA, Pub. Law 96-510 at 148-49 (Comm.Print 1983) (CERCLA was intended to “serve [] as an incentive for the sound treatment and handling of hazardous substances.”); S.Rep. 848, 96th Cong., 2d Sess. 13 (1980), *reprinted in* 1 Senate Comm. on Env't and Pub.Works, Legislative History of the Comprehensive Environmental Response, Compensation and Liability Act of 1980 (Superfund), at 305, 320 (1983) (the law was meant to assure “that those responsible for any damage, environmental harm, or injury from chemical poisons bear the costs of their actions.”).

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. . . . The recoupment mandate interjects a valuable deterrence element into the CERCLA scheme, ensuring that responsible parties will be held accountable for their environmental misdeeds.

Nicolet, 857 F.2d at 210 (citation omitted). The Seventh Circuit has cited *Nicolet* with approval in one of its own decisions applying the police and regulatory power exception. *See P*I*E Nationwide*, 923 F.2d at 512.

The Second Circuit also ruled that the automatic stay did not apply to a CERCLA action for response costs and natural resource damages in *City of New York v. Exxon Corp.*, 932 F.2d 1020 (2d Cir. 1991). The court explained:

[W]e find the legislative history to the automatic stay provision to clearly support the view that Congress meant to except damage actions for completed violations of environmental laws from the action of the stay The inclusion of damage actions for reimbursement together with injunctive relief in this section furthers the purpose of the automatic stay's regulatory exception Actions to collect damages after violations have occurred also are consistent with the section's legislative objective of 'enforc[ing] . . . police or regulatory powers.' They provide an effective deterrent to violators, who will be forced to pay for the government's costs in responding to their violations. The need to continue such deterrent actions, despite the pendency of a bankruptcy action, furthers the purpose of the regulatory exemption to the automatic stay squarely: to avoid frustrating 'necessary governmental functions by seeking refuge in bankruptcy court.

City of New York v. Exxon, 932 F.2d at 1024 (citations omitted). *Accord In re Commerce Oil Company*, 847 F.2d 291 (6th Cir. 1988) ("Punishing wrongdoers, deterring illegal activity, recovering remedial costs of damage to the environment . . . are exercises of the state's regulatory power to effectuate public policy and are not actions based upon the state's property interests.").

The lower court cases decided before and after *Nicolet* and *New York v. Exxon* confirm that government enforcement actions under CERCLA fall within the police and regulatory power exception to the automatic stay – even if monetary claims are involved. *See, e.g., In re New York Trap Rock Corp.*, 153 B.R. 642 (Bankr. S.D.N.Y. 1993) (holding that the automatic stay did not

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apply to a CERCLA complaint filed by the Mississippi Board of Supervisors seeking a money judgment for recovery of response costs and damage to natural resources); *United States v. Mattiace Industries, Inc.*, 73 B.R. 816, 819 (E.D.N.Y. 1987) (holding that a CERCLA cost recovery action by the United States fell within the police and regulatory power exception); *United States v. MacKay*, No. 85 C 6925, 1986 WL 1583, at *3 (N.D. Ill. Jan. 21, 1986) (same).

NewPage's reliance on *In re The Fairchild Corporation* is misplaced. In that case, the court found that a local water district's action for compensatory damages against a groundwater polluter was not a police power exercise. *In re The Fairchild Corp.*, No. 09-10899, 2009 WL 4546581, at *4 (Bankr. D. Del. Dec. 1, 2009). The water district brought those tort-like claims with the help of private attorneys that it hired on a contingent fee basis; it had no legal authority to exercise more traditional police and regulatory powers such as ordering other parties to investigate, abate, or remediate the water pollution. *Id.* at ___. In light of the circumstances and the legal limits on the water district's authority, the bankruptcy court concluded that the water district's suit was "akin to a private action." *Id.* at ___. The main purpose of the action was to ensure that potable water would continue to be *affordable* to the water district's ratepayers, rather than to exercise police or regulatory power. *Id.* at ___.

This suit seeks to hold NewPage and the other defendants accountable under CERCLA for their contributions to the PCB contamination at the Site. Actions like this are critical to the government's enforcement efforts under CERCLA. The claims against NewPage fall within the police and regulatory power exception to the bankruptcy automatic stay, as confirmed by CERCLA's purpose and legislative history and the case law applying that exception in other governmental enforcement actions under the statute.

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Conclusion

For the foregoing reasons, the Plaintiffs respectfully request a declaration that Plaintiffs claims against NewPage fall within the police and regulatory exception established by Bankruptcy Code Section 362(b)(4), 11 U.S.C. § 362(b)(4), and that the automatic stay does not apply to this action.

Respectfully submitted,

For the United States of America

IGNACIA S. MORENO
Assistant Attorney General
Environment and Natural Resources Division

Dated: November 17, 2011

s/ Kristin M. Furrie
KRISTIN M. FURRIE, Trial Attorney
RANDALL M. STONE, Senior Attorney
JEFFREY A. SPECTOR, Trial Attorney
Environmental Enforcement Section
Environment and Natural Resources Division
U.S. Department of Justice
P.O. Box 7611
Washington, DC 20044-7611
Telephone: 202-616-6515
Facsimile: 202-616-6584
E-Mail: kristin.furrie@usdoj.gov

GREGORY J. HAANSTAD
Attorney for the United States, Acting
Under Authority Conferred by 28 U.S.C. § 515

SUSAN M. KNEPEL
Assistant United States Attorney
Office of the United States Attorney
517 E. Wisconsin Avenue, Room 530
Milwaukee, WI 53202

For the State of Wisconsin

Dated: November 17, 2011

s/ Cynthia R. Hirsch
CYNTHIA R. HIRSCH
Assistant Attorney General
Wisconsin Department of Justice
17 West Main Street
P.O. Box 7857
Madison, Wisconsin 53707-7857

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CERTIFICATE OF SERVICE

The undersigned hereby certifies that, on this day, the foregoing Brief was filed electronically with the Clerk of the Court using the Court's Electronic Court Filing System, which sent notification of such filing to the following counsel:

Mary Rose Alexander
Latham & Watkins LLP
mary.rose.alexander@lw.com

Thomas Armstrong
von Briesen & Roper SC
tarmstro@vonbriesen.com

Paul Bargren
Foley & Lardner LLP
pbargren@foley.com

Linda E. Benfield
Foley & Lardner LLP
lbefield@foley.com

Dennis P. Birke
DeWitt Ross & Stevens SC
db@dewittross.com

Steven P. Bogart
Reinhart Boerner Van Deuren SC
sbogart@reinhartlaw.com

Michael P. Carlton
von Briesen & Roper SC
mcarlton@vonbriesen.com

Evan R. Chesler
Cravath Swaine & Moore LLP
echesler@cravath.com

Marc E. Davies
Greenberg Traurig LLP
daviesm@gtlaw.com

Brandon J. Evans
Hermes Law Ltd.
bje@hermeslawltd.com

Sandra C. Goldstein
Cravath Swaine & Moore LLP
sgoldstein@cravath.com

Thomas R. Gottshall
Haynsworth Sinkler Boyd PA
lgantt@hsblawfirm.com

Eric W. Ha
Sidley Austin LLP
eha@sidley.com

Scott W. Hansen
Reinhart Boerner Van Deuren SC
shansen@reinhartlaw.com

William H. Harbeck
Quarles & Brady LLP
william.harbeck@quarles.com

Michael L. Hermes
Hermes Law Ltd.
mlh@hermeslawltd.com

Cynthia R. Hirsch
Wisconsin Department of Justice
hirschcr@doj.state.wi.us

Caleb J. Holmes
Greenberg Traurig LLP
holmesc@gtlaw.com

Philip C. Hunsucker
Hunsucker Goodstein & Nelson PC
phunsucker@hgnlaw.com

Paul G. Kent
Stafford Rosenbaum LLP
pkent@staffordlaw.com

Susan E. Lovern
von Briesen & Roper SC
slovern@vonbriesen.com

Kevin J. Lyons
Davis & Kuelthau SC
klyons@dkattorneys.com

Karl S. Lytz
Latham & Watkins LLP
karl.lytz@lw.com

David G. Mandelbaum
Greenberg Traurig LLP
mandelbaumd@gtlaw.com

Tara M. Mathison
Davis & Kuelthau SC
tmathison@dkattorneys.com

Stephen F. McKinney
Haynsworth Sinkler Boyd PA
smckinney@hsblawfirm.com

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Heidi D. Melzer
Hermes Law Ltd.
hdm@hermeslawltd.com

Elizabeth K. Miles
Davis & Kuelthau SC
emiles@dkattorneys.com

Sabrina Mizrachi
Greenberg Traurig LLP
mizrachis@gtlaw.com

Monique M. Mooney
Greenberg Traurig LLP
mooneym@gtlaw.com

William J. Mulligan
Davis & Kuelthau SC
wmulligan@dkattorneys.com

Daniel C. Murray
Johnson & Bell Ltd.
murrayd@jbltd.com

Kelly J. Noyes
von Briesen & Roper SC
knoyes@vonbriesen.com

Nancy K. Peterson
Quarles & Brady LLP
nancy.peterson@quarles.com

Thomas M. Phillips
Reinhart Boerner Van Deuren SC
tphillip@reinhartlaw.com

Joan Radovich
Sidley Austin LLP
jradovich@sidley.com

Ronald R. Ragatz
DeWitt Ross & Stevens SC
rrr@dewittross.com

Alexandra Reeve Givens
Cravath Swaine & Moore LLP
agivens@cravath.com

Kathleen L. Roach
Sidley Austin LLP
kroach@sidley.com

Megan A. Senatori
DeWitt Ross & Stevens SC
ms@dewittross.com

Sarah A. Slack
Foley & Lardner LLP
sslack@foley.com

Margaret R. Sobota
Sidley Austin LLP
msobota@sidley.com

James P. Walsh
Appleton City Attorney
jim.walsh@appleton.org

Ted Waskowski
Stafford Rosenbaum LLP
twaskowski@staffordlaw.com

Evan B. Westerfield
Sidley Austin LLP
evanwesterfield@sidley.com

Richard C. Yde
Stafford Rosenbaum LLP
ryde@staffordlaw.com

Patrick J. Ferguson
Latham & Watkins LLP
patrick.ferguson@lw.com

Linda R. Larson
Marten Law
llarson@martenlaw.com

Bradley M. Marten
Marten Law
bmarten@martenlaw.com

Meline G. MacCurdy
Marten Law
mmacurdy@martenlaw.com

Dated: November 17, 2011

s/ Kristin M. Furrie